

Legislative Audit Division

State of Montana



Report to the Legislature

November 2000

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2000

Department of Labor and Industry

This report contains nine audit recommendations. Issues addressed in the report include:

- < Unemployment Insurance Trust Fund Balance - Understated by \$6.1 Million at June 30, 1999, and \$7.4 Million at June 30, 2000.**
- < Administration of Unemployment Insurance Tax Collection Contract.**
- < Internal Service Fund Cash Reserve.**

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

00-11

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Linda Nelson, Vice Chair
Senator Reiny Jabs
Senator Ken Miller
Senator Barry "Spook" Stang
Senator Mike Taylor
Senator Jon Tester

Representative Bruce Simon, Chair
Representative Beverly Barnhart
Representative Mary Anne Guggenheim
Representative Dick Haines
Representative Robert Pavlovich
Representative Steve Vick

LEGISLATIVE AUDIT DIVISION

Scott A. Seecat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 2000

To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for the two fiscal years ended June 30, 2000. Our report contains recommendations concerning Unemployment Insurance Trust Fund cash, Internal Service Fund fees in excess of costs, and expenditures from the General Fund without appropriation.

We thank the department's commissioner and staff for their assistance and cooperation during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seecat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2000

Department of Labor and Industry

Members of the audit staff involved in this audit were John Fine, Geri Hoffman, Wayne Kedish, Jim Manning, Charles Nemec, Alexa O'Dell, and Sonia Powell.

Table of Contents

	Appointed and Administrative Officials	Page iii
	Report Summary	Page iv
Introduction	Introduction	Page 1
	Background	Page 2
	Unemployment Insurance	Page 3
Prior Audit Recommendations	Prior Audit Recommendations	Page 5
Findings and Recommendations	Unemployment Insurance Trust Fund	Page 7
	UI Trust Fund Cash Balance	Page 7
	Undeposited UI Tax Collections	Page 9
	Premium Collections Report	Page 10
	Internal Service Fund - Fees Commensurate With Costs	Page 11
	Fixed Assets	Page 12
	Physical Inventory	Page 12
	Sale of Fixed Assets	Page 13
	Federal Reports	Page 14
	State Compliance	Page 15
	Prepaid Expenses	Page 15
	Abandoned Property	Page 16
	Job Training Partnership Act Compliance	Page 18
Independent Auditor's Report & Department Financial Schedules	Independent Auditor's Report	Page A-3
	Schedule of Changes in Fund Balance & Property Held in Trust For the Fiscal Year Ended June 30, 2000	Page A-5
	Schedule of Changes in Fund Balance & Property Held in Trust For the Fiscal Year Ended June 30, 1999	Page A-6
	Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2000	Page A-7
	Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 1999	Page A-8

Table of Contents

	Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2000	Page A-9
	Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 1999	Page A-10
	Notes to the Financial Schedules	Page A-11
Department Response	Department of Labor and Industry	Page B-1

Appointed and Administrative Officials

Department of Labor and Industry

Pat Haffey	Commissioner
Jerry Keck	Administrator Employee Relations Division
Wendy Keating	Administrator Job Service Division
Tammy Peterson	Administrator Legal/Centralized Services Division
Jim Hill	Administrator Unemployment Insurance Division
Mike McCarter	Judge Workers' Compensation Court

For additional information concerning the Department of Labor and Industry, contact:

Tammy Peterson, Administrator
Centralized Services Division
1327 Lockey
P.O. Box 1728
Helena MT 59624-1728
E-Mail: tapeterson@state.mt.us

Report Summary

Department of Labor and Industry

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2000. We issued an unqualified opinion on the financial schedules which means the reader may rely on the presented financial information.

The prior audit report contained seven recommendations. The department implemented five and did not implement two recommendations. This audit report contains nine recommendations to the department. The current recommendations relate to Unemployment Insurance (UI) cash accounts, UI trust fund deposits, federal reports on UI contributions, fixed asset records, accuracy of federal reports, expending funds without an appropriation, excess fund balance in the internal service fund, abandoned property, and job training program laws.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department include all Unemployment Insurance cash accounts in the reconciliation procedure and record reconciling entries on a monthly basis. Page 8

Department Response: Concur. See page B-3.

Recommendation #2

We recommend the department:

- A. Work with the Department of Revenue to develop a procedure to comply with federal deposit requirements for Unemployment Insurance collections.. . . . Page 10

Department Response: Concur. See page B-3.

- B. Monitor daily bank statements for the Unemployment Insurance clearing account to ensure timely deposits in the Unemployment Insurance Trust Fund. Page 10

Department Response: Concur. See page B-3.

Report Summary

<u>Recommendation #3</u>	We recommend the department work with the Department of Revenue to prepare ETA 581 reports for March 31 and June 30, 2000, as required by federal regulations. Page 11
	<u>Department Response</u> : Concur. See page B-4.
<u>Recommendation #4</u>	We recommend the department reduce the fund balance in its Internal Service Fund to the allowable 60-day balance. Page 12
	<u>Department Response</u> : Concur. See page B-4.
<u>Recommendation #5</u>	We recommend the department:
	A. Adjust its fixed asset records to record only property currently available for use in its operation. Page 13
	<u>Department Response</u> : Concur. See page B-5.
	B. Dispose of the proceeds of real estate sales in accordance with federal regulations. Page 13
	<u>Department Response</u> : Concur. See page B-5.
<u>Recommendation #6</u>	We recommend the department implement an effective review of federal reports by personnel familiar with the program as a means of improving report accuracy. Page 15
	<u>Department Response</u> : Concur. See page B-5.
<u>Recommendation #7</u>	We recommend the department comply with section 17-8-101, MCA, with regard to expending General Fund money from the state treasury only on an appropriation made by law. Page 16
	<u>Department Response</u> : Concur. See page B-5.
<u>Recommendation #8</u>	We recommend the department:
	A. Secure wage claims by seeking an assignment of wages as authorized by state law.. . . . Page 17
	<u>Department Response</u> : Concur. See page B-6.

Report Summary

B. Report and deliver abandoned property to the
Department of Revenue as required by law. Page 17

Department Response: Concur. See page B-7.

Recommendation #9

We recommend the department seek legislation to amend
state law to eliminate conflicts with current federal
job training program regulations. Page 18

Department Response: Concur. See page B-7.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2000. The objectives of the audit were to:

1. Determine department compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the department.
3. Determine if the financial schedules present fairly the results of operations of the department for the two fiscal years ended June 30, 2000.
4. Determine the implementation status of prior audit recommendations.

This report contains nine recommendations to the department. In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of internal service fund type fees and fund equity balances at the department. The statute requires fees and charges for services which are deposited into internal service funds be based upon commensurate costs. The department's internal service fund is administered by the Commissioner's Office, Central Services Division and is discussed on page 11.

Introduction

Background

The Department of Labor and Industry was created by the Executive Reorganization Act of 1971. The department operates as a part of a national employment, unemployment insurance benefits, and training system that assists individuals in preparing for and finding jobs. In addition, the department assists employers in finding workers and assists workers with benefits if they are temporarily unemployed through no fault of their own.

The department enforces state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health-safety laws. In addition, the department conducts research and collects statistics that enable strategic planning, and provides adjudicative services in labor-management disputes.

The department is organized into four divisions and the Commissioner's Office. In addition, the Workers' Compensation Court is administratively attached to the department. A brief description of the divisions and administratively attached units follows:

Commissioner's Office--Legal and Centralized Services Division -

The Commissioner's Office provides administrative and support services to the department. The office is responsible for the overall administration of the department, including direction of program focus and management of human and financial resources. The Legal and Centralized Services Division furnishes all legal and adjudicative services for the department and staffs the Board of Labor Appeals. The division also provides support services to department functions. Support services include support for the department's computers, personnel, payroll, accounting, purchasing, and budgeting.

Employment Relations Division - Employment Relations administers and enforces state statutes related to wage and hours, labor relations, workers' compensation, workplace safety, contractor registration, and human rights.

Unemployment Insurance Division - Unemployment Insurance administers the state's unemployment insurance laws and related federal programs. The division operates through the Administrative, Benefits, Program Support, and Telephone Claims Bureaus.

Job Service Division - The job service provides employment and training programs, labor force statistics, veterans services, job training partnership programs, and trade adjustment assistance.

Administratively attached functions include:

Workers' Compensation Court - The court provides a legal forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease.

Human Rights Commission - The commission hears appeals of regulatory action under the Montana Human Rights Act and the Governmental Code of Fair Practices. Chapter 467, Laws of 1997, revised the laws relating to the commission and transferred staff to the department's Employment Relations Division to conduct investigations, conciliation, hearings, and education.

Board of Labor Appeals - The board hears disputes concerning the administration of Montana unemployment insurance laws as applied to employee or independent contractor status.

Board of Personnel Appeals - The board mediates wage and hour and collective bargaining disputes between employees and employers.

Montana Community Services - Community Services provides administration of the federal Corporation for National Service programs (Ameri Corps and Campus Corps) and community service and volunteer efforts statewide.

Unemployment Insurance

The department administers the state's unemployment insurance fund. The state law which establishes the fund coordinates with federal unemployment law to eliminate overlapping coverage and premiums. State law sets the methodology for calculating employer premiums, determining unemployment benefits, and maintaining funds to finance the program. All unemployment insurance activity is recorded in the Expendable Trust fund type on the state's accounting records.

Under section 39-51-301(5), MCA, the department delegates responsibility for billing and collecting employer premiums, including rating the loss experience of employers and calculating the

Introduction

premiums, to the Department of Revenue (DOR). Section 39-51-402, MCA, directs deposit of unemployment insurance premiums in a bank account called the “clearing account,” then it requires transfer of the collections to Montana’s Unemployment Trust Fund account in the United States Treasury. To pay unemployment benefits, the department draws funds from the state’s account in the U.S. Treasury and deposits the funds in another bank account called the “benefits account.” Unemployment benefits are paid from this account. In addition to paying benefits for employees of covered employers, the department also pays benefits to qualifying former employees of federal and military organizations. The department bills the federal government for these benefits and receives reimbursement to the state’s account in the Unemployment Trust Fund.

The federal government also provides grant funds to defray costs of administering the unemployment insurance program. The amounts available for administration are determined on a formula basis and spent as appropriated by the legislature.

Section 39-51-404(4), MCA, sets an assessment of .13 percent of all taxable wages for experience rated employers and .05 percent of total wages of employers which are not experience rated for deposit in the “employment security account.” The resources in the employment security account are appropriated by the legislature to finance various employment related programs.

Prior Audit Recommendations

Prior Audit Recommendations

The prior financial-compliance audit of the Department of Labor and Industry for the two fiscal years ended June 30, 1998, contained seven recommendations. The department implemented five recommendations and did not implement two recommendations. This report includes additional discussion of issues related to the two recommendations not implemented concerning internal service fund cash reserves (page 11) and payment of claims without appropriation authority (page 15).

Findings and Recommendations

Unemployment Insurance Trust Fund

The Department of Labor and Industry (department) is responsible for administering the Unemployment Insurance (UI) program for the state. UI tax moneys are collected from employers and deposited with the U.S. Treasury until needed to pay benefits to unemployed individuals according to state law and federal program requirements.

The state's UI program is organized by function into two areas. The UI Contributions function includes determining which employers must pay the UI tax and at what rate, registering employers, performing audits of employers, collecting UI taxes, and accounting for UI taxes collected. The Department of Revenue (DOR) operates the Contributions function under a contract with the department. The department operates the UI benefits function which includes assisting individuals with claims, determining applicant eligibility, paying UI benefits to claimants, and hearing disputed claims.

The following three issues address the department's UI program operations.

UI Trust Fund Cash Balance

State law directs deposit of unemployment insurance premiums in a bank account called the "clearing account." From this account, the law requires immediate transfer of the collections to Montana's Unemployment Trust Fund account in the United States Treasury. Trust fund money is transferred to the "benefits account" when it is needed to pay benefits. UI cash amounts on deposit in the "clearing account," the "benefits account," and the account at the U.S. Treasury do not balance between the bank statements and the state's primary accounting system. As a result, UI Trust Fund cash balances were understated by approximately \$6.1 million and \$7.4 million at June 30, 1999 and 2000, respectively on the state's accounting records. Although department personnel perform a monthly reconciliation, differences continue to exist between bank and accounting system balances.

Section 17-2-110(2) and (3), MCA, requires each state agency to prepare financial records and reconciliations to accurately and comprehensively present the financial activities of that agency on the state's primary accounting records. The current reconciliation

Findings and Recommendations

procedure does not include the bank account balances and does not reconcile cash with the primary accounting system records.

We found the department records each movement from the “clearing account” to the federal Unemployment Trust Fund and from the Trust Fund to the “benefits account” throughout the year on the state’s accounting records. These accounting entries are reconciled to federal Trust Fund records monthly. However, the additions to cash when premiums are received and reductions of cash when benefits are paid cumulate throughout the year. By analyzing and closing these amounts monthly, the department could identify and fix problems more efficiently.

A department official said the understated cash balance probably resulted from errors over the years. Until fiscal year 1999-2000, state accounting policy required the department to close the account used to track cash movements through the “clearing” and “benefits” accounts into the Unemployment Trust Fund cash account. Since department personnel did not tie the balance in this cash tracking account to the bank balances, the understatement was not detected and corrected. The department can use the monthly bank statements and the monthly balance report from the U.S. Treasury to detect and reconcile differences and record cash adjustments on a monthly basis.

Recommendation #1

We recommend the department include all Unemployment Insurance cash accounts in the reconciliation procedure and record reconciling entries on a monthly basis.

Findings and Recommendations

Undeposited UI Tax Collections

State and federal law require the department to immediately deposit all UI moneys collected to the UI Trust Fund. The department contracted with Department of Revenue (DOR) to collect UI contributions from the state's employers and deposit the receipts with the U.S. Treasury. In a two step process, DOR deposits contributions in the UI clearing account at a local bank. The bank wires the money to the U.S. Treasury. DOR uses automated systems to record and maintain UI employer accounts and collection details.

At the end of November 1999, DOR changed from the Montana UI Tax System (MAC) to its new Process Oriented INTEgrated System (POINTS). The transition caused problems in the UI collection process. In response to an error discovered in the POINTS revenue accounting module, DOR personnel suspended UI deposits to the U.S. Treasury until a correction was made. The UI moneys remained in the state treasury. From November 30, 1999, to January 31, 2000, no UI tax collections from employers were deposited in the "clearing account" or in the UI Trust Fund account in the U.S. Treasury. Although the department was aware of the deposit problem at DOR within several days after deposits ceased, the department informed the U.S. Department of Labor of the two month suspension of deposits in a letter dated February 1, 2000. DOR has deposited these collections to the U.S. Treasury and paid interest for the period in which amounts were not deposited.

The department is responsible for operating the UI program and monitoring DOR compliance with the UI contract. The department has access to daily reports on the UI clearing account from the bank. By reviewing these reports, department personnel can verify DOR deposits of UI receipts to the clearing account and wire transfers to the U.S. Treasury.

Findings and Recommendations

Recommendation #2

We recommend the department:

- A. Work with the Department of Revenue to develop a procedure to comply with federal deposit requirements for Unemployment Insurance collections.**
- B. Monitor daily bank statements for the Unemployment Insurance clearing account to ensure timely deposits in the Unemployment Insurance Trust Fund.**

Premium Collections Report

Federal regulations require the state to submit a quarterly report to the U.S. Department of Labor, the ETA 581, which provides information on unemployment insurance premium collections and accounts receivable. These reports have not been submitted for the quarters ended March 31 and June 30, 2000. Prior to these quarters, the Department of Revenue (DOR) prepared these reports, but it has been unable to obtain the necessary data from its new computer system for the recent quarters. The U.S. Department of Labor has placed the state on a continuous improvement plan to correct the reporting deficiency.

We found, through review of the contract for services between DOR and the department, that the contract does not require DOR to prepare the ETA 581 report. The cooperative agreement between the department and DOR requires DOR to provide the data necessary to prepare the reports to the department within 15 days after the end of each quarter. The department, as the lead agency for compliance with federal unemployment insurance program requirements, should ensure the report is prepared.

Findings and Recommendations

Recommendation #3

We recommend the department work with the Department of Revenue to prepare ETA 581 reports for March 31 and June 30, 2000, as required by federal regulations.

Internal Service Fund - Fees Commensurate With Cost

The department's Central Services Division (CSD) is funded by charges to other department programs which are deposited in an internal service fund. CSD operates similar to a business by charging other department divisions for services at a rate intended to allow CSD to break even while retaining a cash reserve. Federal regulations and state policy allow the department to keep a cash reserve to cover a maximum of 60 days of operating expenses.

During our two fiscal year audit period, the department maintained cash reserves in its CSD internal service fund in excess of the amount allowed under federal regulation and state policy. At June 30, 1999, the department's cash reserve exceeded the 60-day limit by \$381,551 or 84 days. At June 30, 2000, the department's cash reserve exceeded the 60-day limit by \$388,817 or 90 days. The excess fund balance indicates the department's fees have exceeded the cost of services provided to various federal and state programs. Of these amounts, federal programs contributed approximately 52 percent. Therefore, we question \$202,185 in federal funds paid to the internal service fund as being payments in excess of actual costs of services.

A department manager said the excess funds accumulated because vacant positions reduced CSD personal services expenditures below the level anticipated in the internal service rate, federal program revenue increased, and the department applied a conservative approach to reducing the excess from prior years. This issue was

Findings and Recommendations

discussed in the prior audit report, but CSD personnel did not initiate a process to adjust the rates for the audit period.

Recommendation #4

We recommend the department reduce the fund balance in its Internal Service Fund to the allowable 60-day balance.

Fixed Assets

The department records real estate owned for use as employment service offices and equipment valued at \$5,000 or more in the General Fixed Asset Account Group and the Internal Service Fund. Fixed asset detail ledgers identify the type of asset, its location, the date placed in service, and the source of funding used to purchase it. To more accurately track fixed assets, the department periodically performs a physical inventory. We reviewed the department's fixed asset records, including those of the recent physical inventory, and identified two concerns.

Physical Inventory

The department's property manager sent lists of fixed assets with values greater than \$5,000 to each location. Personnel at the location confirmed the status of the listed property and added items in service at the location which were not listed. One local manager indicated land and building, previously the site of a local employment office, had been sold in January 2000. The \$81,376 value of the property was still on the department's fixed asset records at June 30, 2000. We also observed that computer equipment which cost \$428,400 had been removed from service at the local employment offices and placed in warehouse storage. Although department management said there are no plans to return the equipment to service, it has not been processed as surplus property and remains on the fixed asset records. In addition, computer equipment worth \$20,255 is on the inventory list even though it had not been received by department as of June 30, 2000.

Findings and Recommendations

Sale of Fixed Assets

In January 2000, the department sold real estate which had been used as a local job service office. At fiscal year end, department personnel recorded \$30,817 as revenue for the Unemployment Insurance administrative grant and \$81,001 as deferred revenue of the Employment Service grant. Federal regulations require the grantees which sell real property to request instructions for disposition of the sale proceeds from the federal awarding agency. Federal regulations allow the grantee to sell real property no longer used in the program and apply the proceeds to acquiring replacement property for the same program or pay the awarding agency for its share of the proceeds.

A department accountant said the U.S. Department of Labor approved the use of the sale proceeds to build the replacement facilities or pay the debt on its construction. For the portion of the proceeds for which revenue was deferred, the department did not use the funds for either of the approved purposes. Furthermore, the department neither added the resources to those available for use in the program nor deducted it from total allowable costs as required by federal program income regulations. Therefore, we question \$81,001 in costs to the Employment Service grant.

Recommendation #5

We recommend the department:

- A. Adjust its fixed asset records to record only property currently available for use in its operation.**
- B. Dispose of the proceeds of real estate sales in accordance with federal regulations.**

Findings and Recommendations

Federal Reports

The department prepares quarterly financial reports for certain federal grant programs. We found four quarterly financial status reports for federal funding of employment service operations and two quarterly reports for the Disabled Veterans' Outreach Program did not agree with the state's primary accounting records. Federal regulations require grantees to report expenditures supported by the accounting records. The nature of the errors is discussed below.

- < For three quarters, the department reported federal employment service expenditures in excess of the amount of approved grant authority. We found department accounting records showed employment service expenditures in excess of federal funding, but grant funds had not been drawn in excess of the grant limit. Department officials attributed the reporting errors to inexperienced staff preparing the reports.
- < For two quarters, the department reported expenditures for the Disabled Veterans' grant which, when added to the cumulative expenditures for the grant from the previous quarterly report, did not equal the cumulative expenditures at the end of the current period.
- < For one quarter, the department reported expenditures in excess of amounts actually spent. As a result, the department drew \$178,310 in federal cash from the federal employment service grant in excess of the amount actually spent on grant activities.

Department officials identified review of reports by program personnel as a control procedure designed to ensure the accuracy of reports. The errors described above are ones which a review of the reports by knowledgeable personnel should detect. A Centralized Services Division accountant said the reports had been circulated to program personnel for review prior to submission to the federal government, but no comments or corrections were received. We believe careful monitoring of reports by personnel familiar with the program can prevent similar errors in the future.

Findings and Recommendations

Recommendation #6

We recommend the department implement an effective review of federal reports by personnel familiar with the program as a means of improving report accuracy.

State Compliance

We reviewed the department's compliance with certain statutes governing its operations. The following three sections discuss appropriation authority for expenditures, abandoned property, and Job Training Partnership Act coordination.

Prepaid Expenses

The department recorded a prepaid expense in the General Fund and Internal Service Fund which allowed it to make expenditures when it had insufficient Special Revenue Fund cash and/or appropriation authority. We noted the department recorded prepaid expense transactions of approximately \$4.6 and \$2.9 million in fiscal years 1998-99 and 1999-2000, respectively. The transactions varied from a few dollars to more than \$338,000. Section 17-8-101(1), MCA, states that money in the General Fund and Special Revenue Fund may be paid out of the treasury only on an appropriation made by law. Although Section 17-8-101(2), MCA, allows payments from the Internal Service Fund by appropriation or under general laws permitting disbursement, use of Internal Service Fund resources to pay expenses of other funds constitutes an unauthorized interentity loan.

A department official indicated the prepaid expense account was used to borrow money from the General Fund and Internal Service Fund because the department needed to pay federal program costs but did not have sufficient cash. Once the federal bills are paid the department sought federal reimbursement. State accounting policy only allows the prepaid expenses account to be used when recording prepayments for goods or services not yet received such as prepaid rent and unexpired insurance premiums. When the goods or

Findings and Recommendations

services are received, the prepaid account is reduced and the amount is charged to the appropriate expenditure control account. By using prepaid expenses to generate a treasury warrant, the department avoided state appropriation control. We discussed this issue in the previous audit report.

The department should consider other alternatives such as delaying expenditures until the department has cash and/or budget authority or establishing a temporary loan. Provision is made in section 17-2-107(2)(a), MCA, for requesting authority from the Department of Administration for a temporary loan when the cash balance in a fund is insufficient to meet necessary expenditures.

Recommendation #7

We recommend the department comply with section 17-8-101, MCA, with regard to expending General Fund money from the state treasury only on an appropriation made by law.

Abandoned Property

The department collects money from employers on behalf of employees involved in disputes over unpaid wages. Section 39-3-213, MCA, states the department shall deposit money collected in the expendable trust fund and attempt to make payment to the entitled person. We noted two issues related to these collections and administration of the expendable trust fund account where changes in department procedures could improve compliance with state law.

The department does not periodically review the status of money collected but not disbursed to the claimant. At times, the department collects wages from employers, but cannot locate the employee. Warrants issued by the department may be returned or not cashed. We found several instances where the state treasurer had notified the department of stale-dated warrants, but department personnel had not processed transactions canceling the warrant and returning the

Findings and Recommendations

cash to the expendable trust fund. In addition, we noted \$8,137 in the account related to claims more than one year old. Under section 70-9-803(1)(l), MCA, wages and other compensation for personal services are presumed abandoned one year after the compensation becomes payable. State law requires holders of abandoned property to report and deliver it to the Department of Revenue for deposit in the General Fund.

We also observed checks totaling \$5,792 from employers which were made payable directly to employees and held in claimant files at the department. These checks are now stale-dated under state law. As a result, the employees did not receive the wages and the department did not secure the wages sent to it in a trustee status. The department can secure the wages by taking an assignment of the claim in trust for the employee under section 39-3-211, MCA.

A department official said some employers send payroll checks made to the employee because it more accurately reflects the expense incurred. Department personnel mail these checks to claimants if their addresses are known. Another official said the department has not reconciled abandoned property in the account since 1995.

Recommendation #8

We recommend the department:

- A. Secure wage claims by seeking an assignment of wages as authorized by state law.**
- B. Report and deliver abandoned property to the Department of Revenue as required by law.**

Findings and Recommendations

Job Training Partnership Act Compliance

The Department of Labor and Industry administers the Job Training Partnership Act (JTPA) for the state. JTPA assists economically disadvantaged and dislocated workers with employment services. State law contains specific language governing JTPA program planning and administration. The following two issues relate to the JTPA program compliance.

Section 53-2-1110, MCA, requires the governor to submit proposed job training plans for Montana's two service delivery areas for review and comment to an appropriate interim standing legislative committee. The plans were to be submitted 120 days before the beginning of the first of the two program years covered by the plan. State law also directed the governor to submit one copy of the proposed job training plans to the speaker of the house of representatives, the president of the senate, and to the legislative council if the legislature was not in session. Department personnel said the plans were originally given to an interim legislative committee for review but when the committee was eliminated in the early 1990's the review stopped.

On July 1, 2000, the Workforce Incentive Act replaced JTPA. As a result, existing state laws governing the establishment and oversight of the JTPA program conflict with the requirements of the Workforce Investment Act. Since the department now operates job training programs under the Workforce Investment Act instead of JTPA, state statutes should be updated to eliminate specific requirements related to JTPA. Because of the timing of the federal program change, department management said the department has not had the opportunity to propose amendments to state law to eliminate conflicts with current federal program requirements.

Recommendation #9

We recommend the department seek legislation to amend state law to eliminate conflicts with current federal job training program regulations.

Independent Auditor's Report & Department's Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Labor and Industry for each of the fiscal years ended June 30, 1999 and 2000. The information contained in these financial schedules is the responsibility of the Department of Labor and Industry's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the Department of Labor and Industry's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Labor and Industry for each of the fiscal years ended June 30, 1999 and 2000, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

August 31, 2000

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1999	\$ (9,385)	\$ 5,680,028	\$ 0	\$ 959,369	\$ 6,588,436	\$ 285,353	\$ 0	\$ 145,814,067
PROPERTY HELD IN TRUST: July 1, 1999							\$ 690,949	
ADDITIONS								
Budgeted Revenues & Transfers-In		49,540,758		36,088	233,916	1,848,873		37,495
NonBudgeted Revenues & Transfers-In		346	128,250	68	(24,030)			75,788,525
Prior Year Revenues & Transfers-In Adjustments	273	171,527			(637)	150		(55,781)
Cash Transfers In(Out)								
Direct Entries to Fund Balance	1,818,914	11,143,823			(6,706,813)			64,436
Additions to Property Held in Trust							117,534	
Total Additions	<u>1,819,187</u>	<u>60,856,454</u>	<u>128,250</u>	<u>36,156</u>	<u>(6,497,564)</u>	<u>1,849,023</u>	<u>117,534</u>	<u>75,834,675</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	1,960,276	51,918,031		243,000	352,988	1,790,276		
Nonbudgeted Expenditures & Transfers-Out		1,757,508	128,250		(4,596)	(51,479)		58,769,771
Prior Year Expenditures & Transfers-Out Adjustments	(8,571)	77,262		117,000	(2,323)	(38,230)		568,046
Reductions to Property Held in Trust							90,553	
Total Reductions	<u>1,951,705</u>	<u>53,752,801</u>	<u>128,250</u>	<u>360,000</u>	<u>346,069</u>	<u>1,700,567</u>	<u>90,553</u>	<u>59,337,817</u>
FUND BALANCE: June 30, 2000	\$ <u>(141,903)</u>	\$ <u>12,783,681</u>	\$ <u>0</u>	\$ <u>635,525</u>	\$ <u>(255,197)</u>	\$ <u>433,809</u>	\$ <u>0</u>	\$ <u>162,310,925</u>
PROPERTY HELD IN TRUST: June 30, 2000							\$ <u>717,930</u>	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Expendable Trust Fund</u>
FUND BALANCE: July 1, 1998	\$ 15,730	\$ 2,244,260	\$ 0	\$ 1,804,346	\$ 6,938,408	\$ 305,838	\$ 0	\$ 75,763,855
PROPERTY HELD IN TRUST: July 1, 1998							\$ 1,140,972	
ADDITIONS								
Budgeted Revenues & Transfers-In		47,273,533	131,654	77,356	2,377,231	1,689,853		72,954,578
Nonbudgeted Revenues & Transfers-In		1,285,660				4,987		42,139
Prior Year Revenues & Transfers-In Adjustments		228,851			519	247		(38,380)
Cash Transfers In (Out)	1,332,864	4,800,345				1,215		
Direct Entries to Fund Balance		(626,630)						57,179,116
Additions to Property Held in Trust							114,349	
Total Additions	<u>1,332,864</u>	<u>52,961,759</u>	<u>131,654</u>	<u>77,356</u>	<u>2,377,750</u>	<u>1,696,302</u>	<u>114,349</u>	<u>130,137,453</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	1,346,629	47,655,426		922,333	1,628,015	1,741,120		
Nonbudgeted Expenditures & Transfers-Out		1,684,443	131,654		1,118,915	486		60,080,899
Prior Year Expenditures & Transfers-Out Adjustments	11,350	186,122			(19,208)	(24,819)		6,342
Reductions to Property Held in Trust							564,372	
Total Reductions	<u>1,357,979</u>	<u>49,525,991</u>	<u>131,654</u>	<u>922,333</u>	<u>2,727,722</u>	<u>1,716,787</u>	<u>564,372</u>	<u>60,087,241</u>
FUND BALANCE: June 30, 1999	\$ (9,385)	\$ 5,680,028	\$ 0	\$ 959,369	\$ 6,588,436	\$ 285,353	\$ 0	\$ 145,814,067
PROPERTY HELD IN TRUST: June 30, 1999							\$ 690,949	

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits		\$ 14,250						\$ 14,250
Charges for Services		4,954,109			\$ (640)	\$ 930,318		5,883,787
Investment Earnings		183,927		\$ 36,156	74,204		\$ 11,063,687	11,357,974
Fines and Forfeits		1,140,838						1,140,838
Federal Indirect Cost Recoveries						914,372		914,372
Sale of Documents, Merchandise and Property		7,480			135,686			143,166
Rentals, Leases and Royalties						4,333		4,333
Contributions and Premiums							60,636,418	60,636,418
Grants, Contracts, Donations and Abandonments		5,426,911						5,426,911
Other Financing Sources		43,650						43,650
Federal	\$ 273	37,941,466	\$ 128,250				4,070,134	42,140,123
Total Revenues & Transfers-In	273	49,712,631	128,250	36,156	209,250	1,849,023	75,770,239	127,705,822
Less: Nonbudgeted Revenues & Transfers-In Adjustments	0	346	128,250	68	(24,030)	0	75,788,525	75,893,159
Prior Year Revenues & Transfers-In Adjustments	273	171,527	0	0	(637)	150	(55,781)	115,532
Actual Budgeted Revenues & Transfers-In	0	49,540,758	0	36,088	233,917	1,848,873	37,495	51,697,131
Estimated Revenues & Transfers-In	0	68,616,827	0	434,382	1,110,540	2,028,020	0	72,189,769
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (19,076,069)	\$ 0	\$ (398,294)	\$ (876,623)	\$ (179,147)	\$ 37,495	\$ (20,492,638)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits		\$ (414,671)						\$ (414,671)
Charges for Services		(68,728)			\$ (4)	\$ 90,385		21,653
Investment Earnings		(239,365)		\$ (398,293)	(141,696)		\$ 37,495	(741,859)
Fines and Forfeits		(7,405,997)			(700,000)			(8,105,997)
Sale of Documents, Merchandise and Property		(1,022)			(33,923)			(34,945)
Rentals, Leases and Royalties						(3,023)		(3,023)
Contributions and Premiums		(4,899,000)						(4,899,000)
Federal Indirect Cost Recoveries				(1)		(266,509)		(266,510)
Grants, Contracts, Donations and Abandonments		(961,232)			(1,000)			(962,232)
Other Financing Sources		43,650						43,650
Federal	\$ 0	(5,129,704)	\$ 0	(398,294)	(876,623)	(179,147)	37,495	(5,129,704)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (19,076,069)	\$ 0	\$ (398,294)	\$ (876,623)	\$ (179,147)	\$ 37,495	\$ (20,492,638)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$ 16,000						\$ 16,000
Charges for Services	8,660,911			\$ 146,178	\$ 826,044		9,633,133
Investment Earnings	85,268		\$ 77,356	135,957		\$ 9,856,695	10,155,276
Fines and Forfeits	1,432			1,962,852			1,964,284
Federal Indirect Cost Recoveries					859,618		859,618
Sale of Documents, Merchandise and Property	1,650			132,764			134,414
Rentals, Leases and Royalties					4,438		4,438
Contributions and Premiums						59,357,743	59,357,743
Miscellaneous					4,987		4,987
Grants, Contracts, Donations and Abandonments	4,191,556						4,191,556
Other Financing Sources	9,582						9,582
Federal	35,821,645	\$ 131,654				3,743,899	39,697,198
Total Revenues & Transfers-In	48,788,044	131,654	77,356	2,377,751	1,695,087	72,958,337	126,028,229
Less: Nonbudgeted Revenues & Transfers-In	1,285,660				4,987	42,139	1,332,786
Prior Year Revenues & Transfers-In Adjustments	228,851			519	247	(38,380)	191,237
Actual Budgeted Revenues & Transfers-In	47,273,533	131,654	77,356	2,377,232	1,689,853	72,954,578	124,504,206
Estimated Revenues & Transfers-In	48,405,052	150,000	1,638,354	4,925,001	1,548,001	14,000,000	70,666,408
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,131,519)	\$ (18,346)	\$ (1,560,998)	\$ (2,547,769)	\$ 141,852	\$ 58,954,578	\$ 53,837,798
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$ 9,000						\$ 9,000
Charges for Services	3,248,190			\$ (540,341)	\$ 182,797		2,890,646
Investment Earnings	(25,867)		\$ 39,002	(67,044)		\$ 1,852,936	1,799,027
Fines and Forfeits	(1,568)			(1,888,148)			(1,889,716)
Federal Indirect Cost Recoveries					(30,382)		(30,382)
Sale of Documents, Merchandise and Property	(9,350)			(32,236)			(41,586)
Rentals, Leases and Royalties					(10,563)		(10,563)
Contributions and Premiums						58,357,743	58,357,743
Miscellaneous							0
Grants, Contracts, Donations and Abandonments	(76,104)			(20,000)			(96,104)
Other Financing Sources			(1,600,000)				(1,600,000)
Federal	(4,275,820)	\$ (18,346)				(1,256,101)	(5,550,267)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,131,519)	\$ (18,346)	\$ (1,560,998)	\$ (2,547,769)	\$ 141,852	\$ 58,954,578	\$ 53,837,798

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	Program (Subclass) Not Specified	Jot Service Division	Unemployment Insurance Division	Central Services Division	Employment Relations Division	Central Services Division	Workers' Compensation Court	NB	Total
PERSONAL SERVICES									
SALARIES		\$ 9,232,384	\$ 3,286,249	\$ 1,685,097	\$ 3,199,410	\$ 106,772	\$ 240,998	\$ 670,197	\$ 18,421,107
OTHER COMPENSATION		1,947		6,456	8,550				16,953
EMPLOYEE BENEFITS		2,472,376	876,348	425,627	852,683	27,356	56,571	179,432	4,890,393
PERSONAL SERVICES-OTHER		(4,596)		(70,829)	(1,004)				(76,429)
Total	\$ 0	11,702,111	4,162,597	2,046,351	4,059,639	134,128	297,569	849,629	23,252,024
Operating Expenses									
Other Services		1,911,708	3,636,297	267,489	974,279	41,972	22,038	53,404	6,907,187
Supplies & Materials		1,737,184	110,980	129,568	374,719	11,540	6,845	115,179	2,486,015
COMMUNICATIONS		363,386	305,037	59,640	205,003	6,533	6,842	21,739	968,180
TRAVEL		495,884	78,532	38,888	190,971	73,076	7,403	21,887	906,641
Rent		395,384	91,727	138,226	310,286	2,349	20,511	32,140	990,623
UTILITIES		100,195	16,604		142		2,733	9,922	129,596
REPAIR & MAINTENANCE		386,802	37,020	18,009	67,571	252	2,704	28,884	541,242
OTHER EXPENSES	4,201	1,296,372	414,121	134,239	472,351	44,300	30,041	82,708	2,478,333
GOODS PURCHASED FOR RESALE		224							224
Total	4,201	6,687,139	4,690,318	786,059	2,595,322	180,022	99,117	365,863	15,408,041
Equipment & Intangible Assets									
Equipment	(41,932)	305,539	14,590	71,352	90,271				439,820
INTANGIBLE ASSETS									0
Total	(41,932)	305,539	14,590	71,352	90,271	0	0	0	439,820
CAPITAL OUTLAY									
LAND & INTEREST IN LAND		60,500							60,500
BUILDINGS									0
OTHER IMPROVEMENTS		101,970							101,970
CAPITAL LEASES-CAP OUTLAY-NB									0
Total	0	162,470	0	0	0	0	0	0	162,470
LOCAL ASSISTANCE									
FROM STATE SOURCES				12,500					12,500
Total	0	0	0	12,500	0	0	0	0	12,500
GRANTS									
FROM STATE SOURCES		229,431							229,431
FROM FEDERAL SOURCES		14,746,610				1,675,745		418,619	16,840,974
FROM OTHER SOURCES		91,657				185		55,059	146,901
Total	0	15,067,698	0	0	0	1,675,930	0	473,678	17,217,306
BENEFITS & CLAIMS									
TO INDIVIDUALS	8,449,887				828,363			50,177,218	59,455,468
FROM STATE SOURCES					224,105				224,105
FROM FEDERAL SOURCES								710,711	710,711
Total	8,449,887	0	0	0	1,052,468	0	0	50,887,929	60,390,284
TRANSFERS									
ACCOUNTING ENTITY TRANSFERS									0
MANDATORY TRNASFERS			64,566					128,250	192,816
Total	0	0	64,566	0	0	0	0	128,250	192,816
Debt Service									
BONDS		114,877	370,418					13,373	498,668
LOANS		168							168
Leases			3,104		6				3,110
Total	0	115,045	373,522	0	6	0	0	13,373	501,946
Total Expenditures & Transfers-Out	\$ 8,412,156	\$ 34,040,002	\$ 9,305,592	\$ 2,916,262	\$ 7,797,706	\$ 1,990,079	\$ 396,687	\$ 52,718,723	\$ 117,577,207
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund		\$ 866,501		\$ 155,406	\$ 904,903	\$ 24,895			\$ 1,951,705
Special Revenue Fund		33,049,949	\$ 8,945,592	1,030,166	6,662,679	1,965,184	\$ 396,687	\$ 1,702,544	53,752,801
Debt Service Fund								128,250	128,250
Capital Projects Fund			360,000						360,000
Enterprise Fund		115,719		225	230,124				346,068
Internal Service Fund	\$ (37,731)	7,833		1,730,465					1,700,567
Expendable Trust Fund	8,449,887							50,887,929	59,337,816
Total Expenditures & Transfers-Out	8,412,156	34,040,002	9,305,592	2,916,262	7,797,706	1,990,079	396,687	52,718,723	117,577,207
Less: Nonbudgeted Expenditures & Transfers-Out	7,882,186	(4,596)	0	(55,680)	54,802	0	0	52,722,742	60,599,454
Prior Year Expenditures & Transfers-Out Adjustments	529,970	93,958	249,255	(33,455)	(119,919)	(2,920)	313	(4,019)	713,183
Actual Budgeted Expenditures & Transfers-Out	0	33,950,640	9,056,337	3,005,397	7,862,823	1,992,999	396,374	0	56,264,570
Budget Authority	0	39,310,627	13,210,608	3,393,065	8,486,634	2,043,126	429,919	0	66,873,979
Unspent Budget Authority	\$ 0	\$ 5,359,987	\$ 4,154,271	\$ 387,668	\$ 623,811	\$ 50,127	\$ 33,545	\$ 0	\$ 10,609,409
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund		\$ 3,528		\$ 2	\$ 25,157				\$ 28,687
Special Revenue Fund		5,305,679	\$ 1,634,521	154,039	591,396	\$ 50,127	\$ 33,545		7,769,307
Debt Service Fund									0
Capital Projects Fund			2,519,750						2,519,750
Enterprise Fund		50,295			7,258				57,553
Internal Service Fund		485		233,627					234,112
Expendable Trust Fund	\$							\$	0
Unspent Budget Authority	\$ 0	\$ 5,359,987	\$ 4,154,271	\$ 387,668	\$ 623,811	\$ 50,127	\$ 33,545	\$ 0	\$ 10,609,409

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Job Service Division	Unemployment Insurance Div.	Commissioner's Office/CSD	Employment Relations Division	Mt Community Services	Workers Compensation Court	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 8,808,579	\$ 3,101,924	\$ 1,753,161	\$ 2,910,627	\$ 153,150	\$ 224,041	\$ 16,951,482
Other Compensation	3,359		6,350	10,300	274		20,283
Employee Benefits	2,465,144	844,965	440,600	794,776	35,738	53,594	4,634,817
Personal Services-Other	2,369		18,738	9,493			30,600
Total	<u>11,279,451</u>	<u>3,946,889</u>	<u>2,218,849</u>	<u>3,725,196</u>	<u>189,162</u>	<u>277,635</u>	<u>21,637,182</u>
Operating Expenses							
Other Services	1,406,439	5,992,743	288,735	552,615	55,553	18,390	8,314,475
Supplies & Materials	1,296,275	176,545	217,644	492,544	13,205	26,931	2,223,144
Communications	492,119	336,000	54,875	168,920	8,959	4,455	1,065,328
Travel	438,212	76,457	41,453	151,606	51,782	8,837	768,347
Rent	374,277	81,567	128,655	217,582	1,980	18,969	823,030
Utilities	106,921	13,576		17,273		2,394	140,164
Repair & Maintenance	348,815	36,284	23,508	28,390	1,200	2,904	441,101
Other Expenses	1,300,572	361,242	130,980	1,336,186	38,077	28,826	3,195,883
Goods Purchased For Resale	7,500						7,500
Total	<u>5,771,130</u>	<u>7,074,414</u>	<u>885,850</u>	<u>2,965,116</u>	<u>170,756</u>	<u>111,706</u>	<u>16,978,972</u>
Equipment & Intangible Assets							
Equipment	76,820	4,984	(7,328)	90,243			164,719
Capital Leases - Equipment	9,582						9,582
Total	<u>86,402</u>	<u>4,984</u>	<u>(7,328)</u>	<u>90,243</u>			<u>174,301</u>
Capital Outlay							
Land & Interest In Land	847						847
Buildings	(56,700)						(56,700)
Total	<u>(55,853)</u>						<u>(55,853)</u>
Grants							
From State Sources	192,050				16,541		208,591
From Federal Sources	13,697,582				1,727,247		15,424,829
From Other Sources					55,467		55,467
Total	<u>13,889,632</u>				<u>1,799,255</u>		<u>15,688,887</u>
Benefits & Claims							
To Individuals		59,482,093		1,165,043			60,647,136
From State Sources				200,742			200,742
From Federal Sources		468,591					468,591
Insurance Payments				136,557			136,557
Total		<u>59,950,684</u>		<u>1,502,342</u>			<u>61,453,026</u>
Transfers							
Accounting Entity Transfers					10,828		10,828
Mandatory Transfers		435,820	131,654				567,474
Total		<u>435,820</u>	<u>131,654</u>		<u>10,828</u>		<u>578,302</u>
Debt Service							
Loans	10,254						10,254
Leases	349	4,138		149			4,636
Total	<u>10,603</u>	<u>4,138</u>		<u>149</u>			<u>14,890</u>
Total Expenditures & Transfers-Out	<u>\$ 30,981,365</u>	<u>\$ 71,416,929</u>	<u>\$ 3,229,025</u>	<u>\$ 8,283,046</u>	<u>\$ 2,170,001</u>	<u>\$ 389,341</u>	<u>\$ 116,469,707</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 429,907		\$ 140,417	\$ 752,561	\$ 35,094		\$ 1,357,979
Special Revenue Fund	30,418,360	\$ 10,543,912	1,180,611	4,858,860	2,134,907	\$ 389,341	49,525,991
Debt Service Fund			131,654				131,654
Capital Projects Fund		922,333					922,333
Enterprise Fund	126,378		66,276	2,535,068			2,727,722
Internal Service Fund	6,720		1,710,067				1,716,787
Expendable Trust Fund		59,950,684		136,557			60,087,241
Total Expenditures & Transfers-Out	<u>30,981,365</u>	<u>71,416,929</u>	<u>3,229,025</u>	<u>8,283,046</u>	<u>2,170,001</u>	<u>389,341</u>	<u>116,469,707</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,072,862	60,380,162	132,140	1,253,103	178,130		63,016,397
Prior Year Expenditures & Transfers-Out Adjustments	46,338	182,771	(24,282)	(16,778)	(28,955)	693	159,787
Actual Budgeted Expenditures & Transfers-Out	<u>29,862,165</u>	<u>10,853,996</u>	<u>3,121,167</u>	<u>7,046,721</u>	<u>2,020,826</u>	<u>388,648</u>	<u>53,293,523</u>
Budget Authority	35,344,958	16,245,061	3,687,261	7,719,225	2,183,093	394,261	65,573,859
Unspent Budget Authority	<u>\$ 5,482,793</u>	<u>\$ 5,391,065</u>	<u>\$ 566,094</u>	<u>\$ 672,504</u>	<u>\$ 162,267</u>	<u>\$ 5,613</u>	<u>\$ 12,280,336</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 812	\$ 26,036	\$ 2,882	\$ 68,349	\$ 1,200		\$ 99,279
Special Revenue Fund	5,437,182	2,919,662	374,830	280,279	161,067	\$ 5,613	9,178,633
Debt Service Fund							0
Capital Projects Fund		2,445,367					2,445,367
Enterprise Fund	11,469		47,007	323,876			382,352
Internal Service Fund	33,330		141,375				174,705
Expendable Trust Fund							0
Unspent Budget Authority	<u>\$ 5,482,793</u>	<u>\$ 5,391,065</u>	<u>\$ 566,094</u>	<u>\$ 672,504</u>	<u>\$ 162,267</u>	<u>\$ 5,613</u>	<u>\$ 12,280,336</u>

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Accounts are organized in funds according to state law. The department uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. The department's General Fund financial activity records support from the state to operate the following programs: Human Rights Commission, Silicosis Benefits, Displaced Homemakers, and Jobs for Montana Graduates.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department activity recorded in the Special Revenue Fund is primarily related to federal assistance programs. These programs include U.S. Department of Labor Employment Service programs, Job Training Partnership Act programs, and Corporation for National and Community Service programs. Other department Special Revenue Funds include state programs for Employment Security, Workers' Compensation Regulation, and Contractor Registration.

Debt Service Fund - to account for accumulated resources for the payment of General Long-Term Debt Principal and Interest. The department uses this fund to account for federal funds received to service part of the debt incurred from renovating the department's local job service offices.

Capital Projects Fund - to account for resources used for purchase or construction of major capital facilities. This fund accounts for the department's share of General Obligation bond proceeds used for the redesign and update of the Unemployment Insurance information system.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate.

Notes to the Financial Schedules

Department Enterprise Funds account for the Subsequent Injury program and Uninsured Employers program administration and benefits.

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis.

Department Internal Service Funds include the Commissioner's Office and Centralized Services Division.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include Agency Funds and Expendable Trust Funds. The department accounts for Contractor Registration program security deposits and Workers' Compensation self-insured employers security deposits in the Agency Fund. The department accounts for the Unemployment Insurance program in the Expendable Trust Fund.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceeded the assets the department placed in the fund, resulting in a negative ending General Fund balance for each of the fiscal years ended June 30, 1999, and June 30, 2000.

3. Expenditure Program (Subclass)

As part of the implementation of a new accounting system in fiscal year 1999-00, state officials determined that a subclass designation would identify the program to which an expenditure should be charged. State officials did not require nonbudgeted expenditure transactions to be identified to a subclass. The program designations in the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2000, are based on the subclass designation used when the expenditures were recorded. The accounting system did not require agencies to code nonbudgeted accounts with a

Notes to the Financial Schedules

subclass code identifying the expenditure program in which the activity occurred. The department recorded \$8,449,887 of unemployment insurance benefits without a subclass code. This nonbudgeted activity is included in the column titled program (subclass) not identified on the Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2000.

4 Nonbudgeted Expenditures

The Schedule of Total Expenditures & Transfers-Out for the year ended June 30, 2000, reports \$50,887,929 of unemployment insurance benefits in the “NB” subclass with other nonbudgeted expenditures. The \$849,629 of personal services, \$365,864 of operating expenses, and \$473,678 of grants recorded in the “NB” subclass reflect nonbudgeted activity related to Job Service Division and Montana Community Services financed with private grants or donations. The \$128,250 in transfers and \$13,373 in debt services reflect bond payments.

5. Unemployment Insurance Contributions and Premiums Revenue

The Department of Revenue collected \$58,427,170 of Unemployment Insurance Contributions and Premiums revenue. These collections were reported in the Department of Revenue’s Schedule of Changes in Fund Balances & Property Held in Trust and Schedule of Total Revenues & Transfers-In for the 1997-98 fiscal year. In fiscal year 1998-99, the Department of Labor and Industry recorded a direct entry to fund balance to reflect these resources in the Unemployment Insurance Expendable Trust Fund. Contributions and Premiums revenue of \$59,357,743 and \$60,636,418 is reported in the department’s Expendable Trust fund in fiscal years 1998-99 and 1999-2000, respectively.

6. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue fund types in fiscal year 1999-2000 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The direct entry in the Enterprise Fund reflects a \$6,710,445 transfer of fund balance in the Uninsured Employers account to the Special Revenue Fund in compliance with state law. Similar transactions are reported in the General and Special Revenue fund types as Cash Transfers in fiscal year 1998-99.

Agency Response



DEPARTMENT OF LABOR AND INDUSTRY

CENTRALIZED SERVICES DIVISION

MARC RACICOT, GOVERNOR

P.O. BOX 1728

STATE OF MONTANA

TELEPHONE: (406) 444-3555
FAX: (406) 444-1419
TDD: (406) 444-0532

HELENA, MONTANA 59624-1728

Financial Compliance Audit Response Centralized Services Division November 14, 2000

Recommendation #1

We recommend the department include all Unemployment Insurance cash accounts in the reconciliation procedure and record reconciling entries on a monthly basis.

Concur. The accounting records will be adjusted to reflect the actual cash in the clearing and the benefit bank accounts. On a monthly basis the Department of Labor will request the transfer of collections from the Department of Revenue instead of doing a one-time entry at state fiscal year end.

Recommendation #2

We recommend the department:

A. Work with the Department of Revenue to develop a procedure to comply with federal deposit requirements for Unemployment Insurance collections.

Concur. The Unemployment Insurance Division will continue to work with the Department of Revenue to assure compliance with federal deposit requirements. The initial delay in deposits which was caused by the conversion to the POINTS system has been corrected and the United States Department of Labor (USDOL) is satisfied with the actions taken in this regard and the restored interest. The UI Division did alert the Department of Revenue that deposits needed to be made to the UI Trust Fund during the time frame November 30, 1999 through January 31, 2000. DLI was also in phone contact with the U.S. Department of Labor during this period. The Department of Revenue was made aware of the seriousness of the situation and letters were written from the Federal program as well as from the UI Division Administrator. In addition, the Department of Labor asked for and received a corrective action plan to ensure and measure progress. Monthly meetings are scheduled between an Operations Team, which includes DOR Project leads, Administrators and Bureau Chiefs from both agencies to foster good communication and ensure compliance with UI laws.

B. Monitor daily bank statements for the Unemployment Insurance clearing account to ensure timely deposits in the Unemployment Insurance Trust Fund.

Concur. The DLI Unemployment Insurance program does not have access to the "clearing account" bank statements, which are maintained by the Department of Revenue

(DOR). Staff at the Department of Revenue and in the Unemployment Insurance Division keep each other informed about the amount and timing of transfers. Coordination of efforts is made between the two responsible parties at each agency to keep each other up to date on what the transfers are. DLI gets a copy of the sheet that validates the amount transferred from the "clearing account" into the UI Trust Fund. DLI UI program also has access to the UI Trust Fund and can see what deposits have been made and where the deposit was initiated. DLI will require DOR to submit a copy of the clearing account bank statement.

Recommendation #3

We recommend the department work with the Department of Revenue to prepare ETA 581 reports for March 31 and June 30, 2000, as required by federal regulations.

Concur. The partnership agreement between DLI and DOR consists of two elements 1) The Cooperative Agreement, which consists of performance requirements and 2) the fee-for-service cost allocation plan, which details the financial agreement. It is our opinion that the 581 requirements belongs in the Cooperative agreement and have updated the Federal Fiscal Year 2001 wording to comply with this recommendation. The UI Division will assist the Department of Revenue in any way possible in preparing the needed ETA 581 reports. UI is responsible for updating the USDOL on the progress made by DOR in this effort.

The Department of Revenue is under a Corrective Action Plan for not submitting the ETA 581 report timely. In the quarterly progress update submitted on October 15, 2000 the Department of Revenue estimated the programming necessary to accurately complete the ETA 581 reports would be finished by the end of December 2000. The defects in the field audit portion of the report are close to completion. There are still problems with accounts receivables primarily due to the difficulty in getting converted accounts receivable aging information from the legacy UI tax system. When these two areas are completed, programming efforts on the status determination and delinquent report areas will begin. Reports for the first three-quarters of 2000 will be generated as soon as the programming is completed. Based on the completion schedule proposed by DOR, the report for the 4th quarter of 2000, which is due on January 20, 2001, should be produced accurately and on time.

Recommendation #4

We recommend the department reduce the fund balance in its Internal Service Fund to the allowable 60-day balance.

Concur. The department will work with it's federal cost negotiator to implement a plan to reduce cash reserves within the 60- day limit.

Recommendation #5

We recommend the department:

- A. Adjust its fixed asset records to record only property currently available for use in its operation.**

Concur. The department is in the process of corrective action and is implementing the following actions:

- 1) Work with all divisions to conduct a physical inventory,
- 2) Review results of inventory with division staff,
- 3) Reconcile fixed assets listing to inventory,
- 4) Process as surplus property or record sale of assets no longer in service,
- 5) Review and maintain fixed assets on a monthly basis, and
- 6) Record fixed assets as of date they are put into service and not on date ordered.

- B. Dispose of the proceeds of real estate sales in accordance with federal regulations.**

Concur. The department has requested instructions for disposition of the sale proceeds from the federal awarding agency and will allocate the deferred revenue accordingly.

Recommendation #6

We recommend the department implement an effective review of federal reports by personnel familiar with the program as a means of improving report accuracy.

Concur. The department was aware of discrepancies and was working to resolve those issues. The department is in the process of implementing procedures to meet internal control requirements and will take the following actions:

- 1) Include a section in the financial status reports that compares expenditures to approved grant authority,
- 2) Compare all reports generated for an approved grant to ensure consistency,
- 3) Transfer over-expended amounts to Wagner Peyser as allowed,
- 4) Work with division staff to verify amounts on reports generated prior to submitting reports, and
- 5) Maintain copies of all documentation in files set up for specific grants.

Recommendation #7

We recommend the department comply with section 17-8-101, MCA, with regard to expending General Fund money from the state treasury only on an appropriation made by law.

Concur. Per the response to the recommendation in the financial compliance audit report for the two fiscal years ended June 30, 1998, the department has used the prepaid expense account only when recording prepayments for goods or services not yet received.

Amounts remaining in the prepaid account at end of state fiscal year 1998 were cleared in state fiscal year 1999, with exception of \$705.02, which is comprised of two rent security deposits for \$80.00 and \$625.00, both of which are valid prepaids, and .02 on an ISD bill, which will be cleared by end of month November, 2000. The department also implemented the following actions:

- 1) Adjusted the coding structure used in the automated supportive services payment system,
- 2) Expended funds only with proper budget authority, and
- 3) Requested federal cash advances or temporary loans to meet cash needs.

The amounts allocated to the prepaid account in state fiscal year 2000 were initiated by Department of Administration, which uses the prepaid account 1905 as a clearing account for warrant cancellations, telecom invoices, and ISD invoices; the department then clears the activity through an interunit journal. To ensure clearing of the prepaid account on a timely basis, the department will:

- 1) Monitor 1905 on a weekly basis and
- 2) Initiate any required journals within the same accounting period.

Discontinuing use of 1905 as a clearing account will require Department of Administration approval.

Recommendation # 8

We recommend the department:

A. Secure wage claims by seeking an assignment of wages as authorized by state law.

Concur. It is the practice of the department to require every employee who files a claim for unpaid wages under state wage and hour and overtime laws to sign an assignment of wages as authorized by state law. It is not possible for the department to secure an assignment of wages from all affected employees in actions brought by the department under 39-3-209 MCA alleging violations of the state prevailing wage, minimum wage and overtime statutes. In these instances, the department is investigating an allegation of underpayment of wages to all employees who worked for a particular employer or on a particular project. The department does not know until after the investigation is complete the names of all of the affected employees, and then it may be difficult, if not impossible, to locate employees no longer employed by the employer being investigated. The department may require the payment of all unpaid wages, but must then seek to locate all of the identified employees.

The department notes that approximately \$4,300 of the nearly \$5,800 in checks held in claimant files at the department were made to individual employees pursuant to a settlement agreement in a lawsuit filed against a single employer. The terms of the settlement agreement specifically prohibited the department from depositing the checks for employees that could not be located in the Wage Trust Fund. In the future, the

department will return checks that become stale in circumstances like this to the employer who issued them.

B. Report and deliver abandoned property to the Department of Revenue as required by law.

Concur. The department will institute a regular procedure for annually reviewing the status of money collected but not disbursed to the claimant. The department will deliver any wages or other compensation held for more than one year to the department of Revenue as abandoned property.

Recommendation #9

Concur. The Legal Division of the department has drafted and submitted proposed legislation to amend state law to eliminate conflicts with the current federal job training program regulations. This legislation will be considered during the upcoming legislative session.